resolute

Q·MEDIA SERVICES CORPORATION ANNUAL REPORT

2000

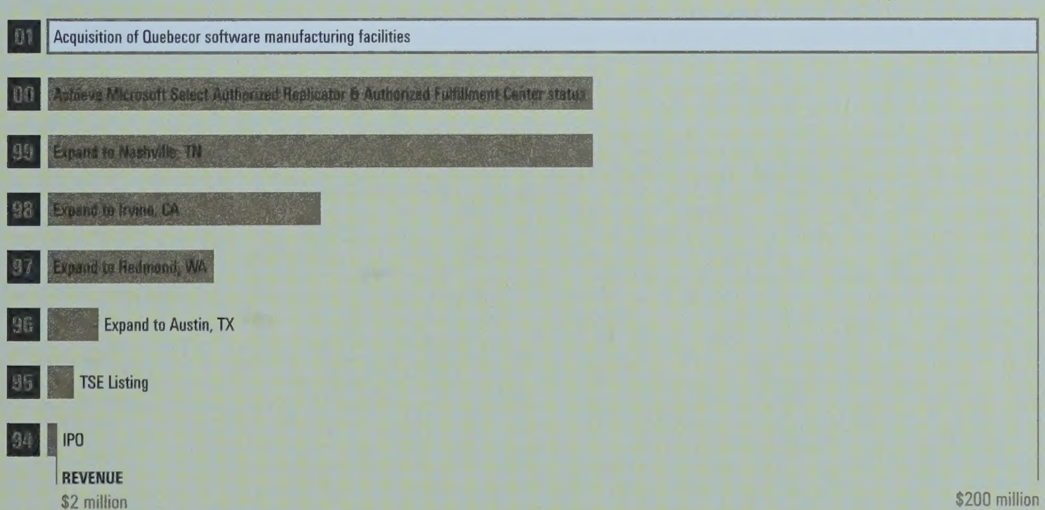
At Q·Media we are resolute in our commitment to our customers. Built on a foundation of perseverance and determination, we deliver supply chain management services to our customers in the personal computer manufacturing industry, software publishing and other technology-related industries.

Q·Media Services Corporation is an outsourced supply chain management company that serves the world's leading hardware manufacturers, content publishers and software publishers. Q·Media offers a variety of integrated and standalone services, including planning and materials procurement, printing, media replication, package assembly, and web-based fulfillment and e-commerce solutions.

Founded in 1986, Q·Media is headquartered in Richmond, British Columbia, with facilities located in Richmond, British Columbia; Redmond and Fife, Washington; Irvine, California; Austin, Texas; Nashville, Tennessee; and Westborough, Massachusetts. The Company's common shares trade on the Toronto Stock Exchange, under the trading symbol "QMS".

highlights of the past year

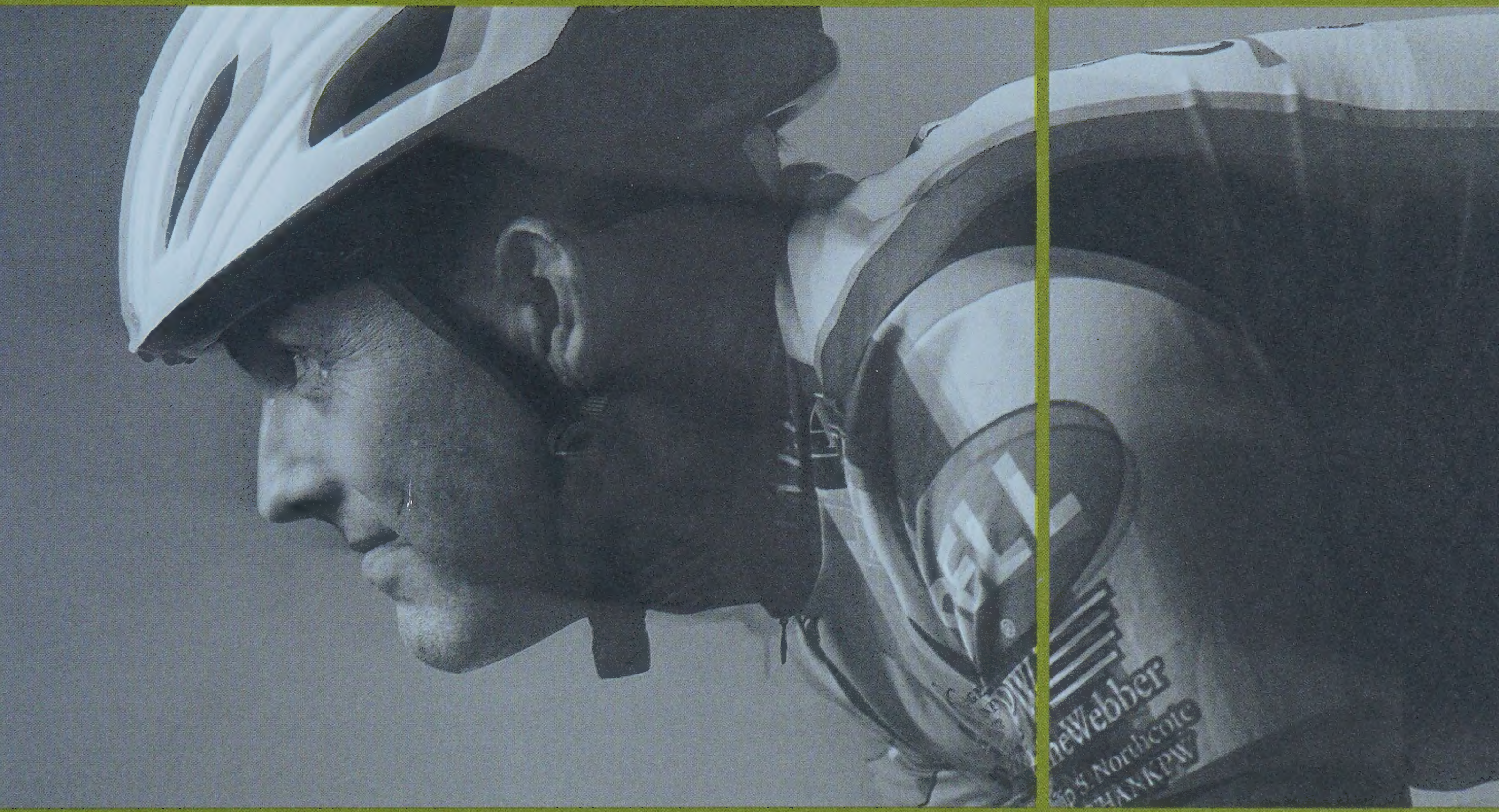
- Ranked #18 on Profit Magazine's "Profit 100" list of fastest-growing Canadian companies.
- Acquired software manufacturing and fulfillment operations of Quebecor World.
- New facility in Nashville, Tennessee commenced production in August 1999.
- Strengthened relationship with Microsoft by gaining full *Microsoft Authorized Replicator* and *Microsoft Authorized Fulfillment Center* designations.
- Signed strategic alliance with Quebecor World, which includes a minimum of $45 million in contracted revenue over the next four years.
- Increased CD-ROM production capacity by 50%.
- Added a location in Northeast United States providing the Company with a presence in this key technology region.



determined

With short product cycles and order turnarounds measured in hours, our planning group must persevere against the ever-changing requirements of our customers. Mike Biehl, Planning and Materials Procurement at Irvine, invests his off hours meeting the challenge of long distance road racing where consistent and constant effort over extended periods of time is the key to success.

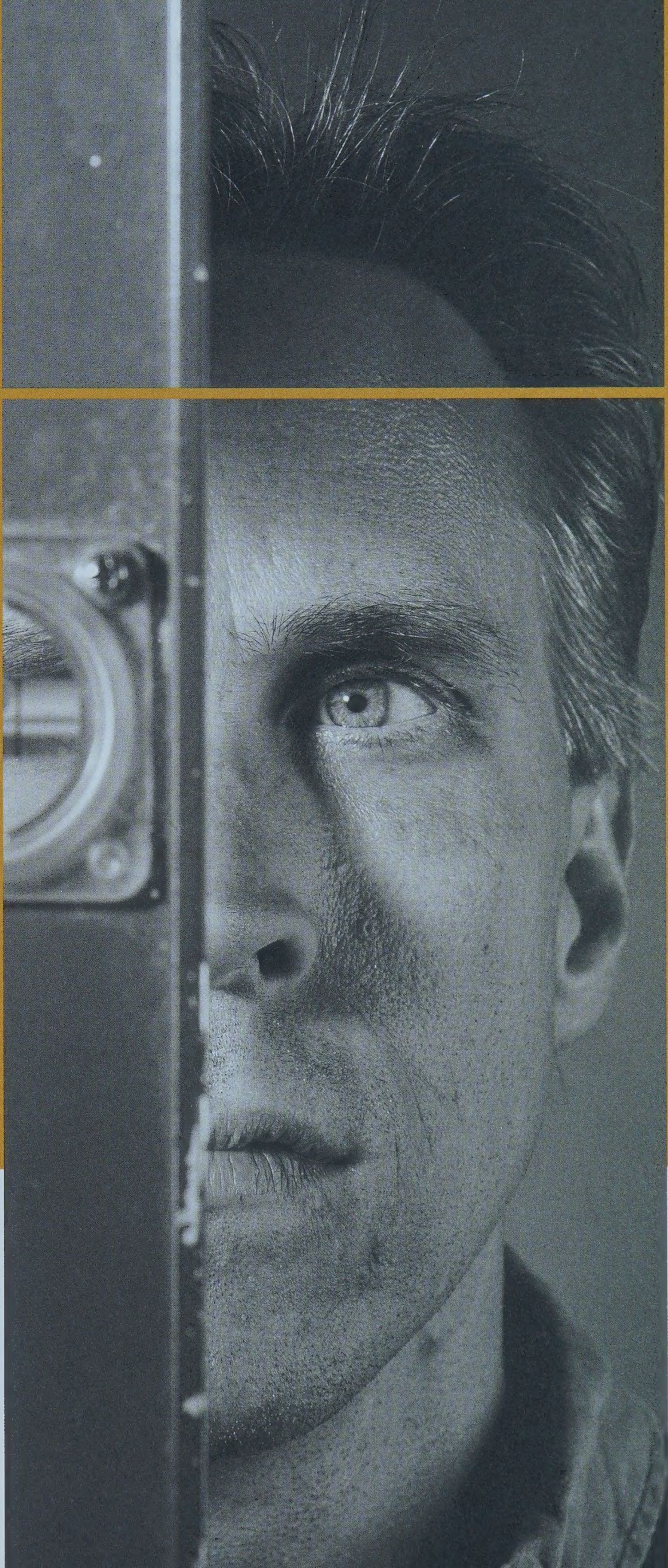
MIKE BIEHL : PLANNING & MATERIALS PROCUREMENT
Irvine, CA



committed

At Q·Media we are entrusted with the responsibility of planning, building and delivering our customers' products. Based on 16 years of commitment and attention to detail, we provide the energy and stability to see our customers' products effectively delivered to the market. Not surprisingly, Ed Sharp, Printing Operations at Fife, exceeds the norm as he commits one week per year to build housing for the less fortunate.

ED SHARP : PRINTING OPERATIONS
Fife, WA



president's message

Our most significant achievement this past year was our acquisition of Quebecor World's software manufacturing facilities located in Fife, Washington and Westborough, Massachusetts.

CONTINUING TO INVEST IN OUR FUTURE

Following several years of robust internal and external growth, in fiscal 2000 we focused on strengthening our overall organization and making the investments necessary for future growth. During the year, we added new facilities and production capacity to enable us to meet the needs of our customers, particularly for our CD-ROM services. We strengthened our management team and Board. We expanded key corporate relationships with Dell, Microsoft and Toshiba. We successfully integrated two sizeable acquisitions completed the previous year, and we grew our customer base significantly. Add to these accomplishments our largest-ever acquisition – which doubled the size of our Company – and fiscal 2000 was a strong year by all key measures.

Part of our strategy to build your Company is our continued emphasis on developing profitable relationships with strategic customers. In fiscal 2000, we enhanced many of our existing relationships. However, we also made some difficult choices with a number of our California-based customers, whose long-term business strategies were not aligned with our corporate goals. As a result, the Company experienced a pause in revenue growth in 2000, following several years of double-digit growth. We have, however, maintained our key operating margins and have re-deployed our assets to more profitable business in 2001. With these investments, we have positioned the Company for continued growth at both the top and bottom line, and expect to return to historical growth trends in fiscal 2001.

Fiscal 2000 Review

Production flexibility, timeliness, quality assurance – these are the watchwords of successful supply chain managers, and these are areas where we focused much of our attention in fiscal 2000. As product cycles are compressed further and outsourcing trends accelerate, being able to do more for our customers, faster and with more responsive service, is the key to building and sustaining long-term relationships.

An important development in our relationship with Dell, one of our largest customers, was our new production facility in Nashville, which came on-line in August 1999 and operated at full capacity throughout the year. This facility has enabled us to continue providing a high level of just-in-time service to Dell in a key market.

To serve our customers' growing demand for CD-ROM replication, we expanded our CD-ROM capacity by over 50% last year. In addition to the new plant in Nashville, we added CD capabilities at our Richmond facility and boosted capacity by 50% in Austin. Our Richmond facility was also outfitted with CD mastering capabilities in the first quarter, which has helped us manage tighter production schedules and maintain our key operating margins.

As our industry evolves, the needs of our customers continue to change. Therefore, it is essential that we anticipate demand for new technologies. Although DVD is not yet mainstream technology for software, demand has been slowly gaining steam. Last year we prepared the Company for the inevitable adoption of DVD technology by installing a manufacturing line at our Irvine facility that is designed to handle DVD-ROM production. We still see slow adoption of DVD-ROM in the software markets and do not expect significant opportunity from DVD-ROM for several years.

Another service of increasing importance to our customers is Internet-based fulfillment and order tracking. We have made significant strides in this area in recent years, and last year improved our systems infrastructure to increase our fulfillment capabilities. This means that for customers requiring rapid implementation of a storefront, on-line ordering, product fulfillment tracking or e-commerce transaction support, we can now provide pre-configured solutions that quickly and efficiently put our customers' product on-line, while seamlessly integrating with their web site.

This innovation and foresight continues to differentiate us from our peers and has been an important means of attracting new customers. In fiscal 2000, we added several top-tier companies to our customer base including Celestica, Nintendo and Telus. These new relationships are especially significant in an industry that is characterized by low customer turnover.

We also strengthened our management team and Board during the year, welcoming Ian May as our Chief Operating Officer and Morgan Sturdy as a new director. Subsequent to year-end, John Longley joined the Company as Chief Financial Officer and Bruce Simpson joined the Board as a director. Each brings a wealth of experience and will make a strong contribution to our future growth.

Once again, we were recognized by Profit Magazine for our outstanding progress. Last year we jumped to 18th place – from 33rd in 1999 – in the magazine's annual "Profit 100" list, which ranks Canada's fastest-growing companies.

Our most significant achievement this past year was our acquisition of Quebecor World's software manufacturing facilities located in Fife, Washington and Westborough, Massachusetts (QIM). This acquisition, which

was completed concurrent with year-end, will double revenue to over $200 million in fiscal 2001, with a similar effect on EBITDA and net income. This transaction significantly strengthens our overall position in the market and gives us the size and scale to be a major force in a consolidating industry. There were a number of other important benefits:

- It guarantees us at least $45 million in new business from Quebecor World, under contract over the next four years. We also have the right of first refusal on all CD-ROM manufacturing outsourced by Quebecor World in North America;
- It strengthens the Company's West Coast operations and opens up the key Northeastern United States market. We now have facilities in all the major technology centres across North America, which has been a key corporate goal over the past several years;
- It brings important customer relationships with blue-chip technology companies such as Adobe, Gateway Computer, Fluke Instrumentation, Hewlett Packard and Microsoft;
- The acquisition further strengthens our Internet-based business processes, especially in the fulfillment area;
- It gives us substantial purchasing power, which over time will contribute to increased margins;
- It enables us to bring our printing requirements in-house, which will also improve margins and allow for quicker order turnaround;
- Finally, in addition to being ISO 9002 certified, these two facilities have full *Microsoft Authorized Replicator* and *Microsoft Authorized Fulfillment Center* designations. This is an upgrade from "select" status, which we achieved in August 1999, and will allow us to sell Microsoft product to any OEM in North America.

Outlook

We see considerable opportunity for continued expansion in fiscal 2001, with our new operations acting as the principal growth driver.

Integration of the QIM acquisition is proceeding smoothly. On top of the work contracted under our initial agreement, we are seeing significant additional opportunities from various Quebecor World divisions, and expect this channel to be a major contributor to revenue growth in fiscal 2001.

While it is our priority to complete the integration of our two new facilities, we remain on the lookout for potential strategic acquisitions. Our acquisition program has helped us grow exponentially over the last several years and remains an important part of our business strategy. There are numerous opportunities in our industry, particularly in our target group of mid-sized software manufacturers. It is a matter of finding companies that meet our strict criteria – the most important being a strong customer list and strategic geographic location.

Looking ahead, the outlook for our businesses remains strong. The outsourcing trend in the computer hardware and software manufacturing industries is accelerating, as manufacturers move to outsource virtually all their requirements.

Based on improving industry fundamentals and our integration of the QIM acquisition, we are confident we can deliver strong financial performance in fiscal 2001.

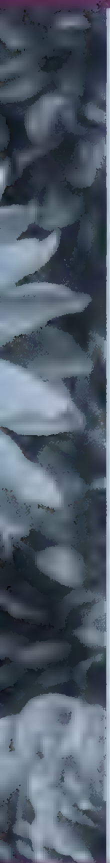
Acknowledgements

I would first like to pay a special tribute to former Q-Media director Robert Cecil, who passed away last year. Bob was undoubtedly one of the finest men and brightest business minds we have had the pleasure of knowing, and he will be greatly missed.

On behalf of management and the Board of Directors, I would like to thank all our employees for their hard work and enthusiasm last year, which was instrumental in helping us achieve our objectives and will play a key role in our future growth.

Robert M. Lawrie
President & CEO

October 4, 2000



creative

Taking our customers' products from concept to final delivery with complete customer satisfaction requires innovation and imagination. The originality and creativity used by Edna Vasquez in her dried flower arrangement is typical of the value-added solutions our customers have come to expect of Q•Media.

EDNA VASQUEZ : ASSEMBLY OPERATIONS
Redmond, WA

responsive

A key benefit for our customer is the effective management of time to market for their products. To accomplish this we must be nimble and react quickly to changing circumstances. Randy MacDonald, Operations at Richmond, takes these skills to the motocross track on the weekends where success in a fast-paced environment is determined by agility and timely responses.

RANDY MacDONALD : OPERATIONS
Richmond, BC


review of operations

Q·Media provides outsourced supply chain management services to the world's leading personal computer hardware manufacturers, software publishers and other technology-related customers. The Company offers a variety of integrated and standalone services, which are integral to the delivery of technology products to consumers. These services include:

- Project Planning and Materials Procurement
- Print Services
- Media Replication
- Package Assembly
- Web Fulfillment and E-Commerce Services

Our primary market, the personal computer industry, is dynamic and fast-paced, and it is rapidly expanding into new areas of information publishing and telecommunications. Whether our products are standard software packages for the retail market; the package assembly of a leading computer game player; the technical documentation for an electronics instrumentation manufacturer; or the innumerable components that ship with every personal computer: our customers have come to rely on Q·Media for the efficient delivery of product to the marketplace. It is against a backdrop of increasing product customization, shorter product cycles, speed to market and convergence of digital information products that our customers look to Q·Media to enhance their competitive position in the marketplace.

Our Objective

To reduce the time to market for our customers thus enhancing their competitive position.

Our Challenge

To design and quickly implement unique and essential solutions in a dynamic environment of accelerating introduction and adoption of new technology products over a broad North American marketplace.

Our Commitment

To move our resources to the front line – close to the customer so we can respond with timely solutions to our customers' challenges.

Our Success

To succeed as we have, our culture is built on several core principles: innovative, "can-do" thinking; efficient connections with our suppliers and customers; fully integrated services at each location; and facilities well situated for the benefit of our customers. This is the foundation upon which our success has been built with leading companies such as Gateway, Telus, Microsoft, Dell, Hewlett Packard and Toshiba.

Our Services

Project Planning and Materials Procurement. Our customers' products are highly complex. With thousands of separate components that must be manufactured or procured on behalf of the customer, our materials planning and procurement group manages a complex supply chain to optimize value for our customers. Inventory must be managed carefully, especially where unique and specialized components combine with product life cycles of less than 90 days. Our team-based approach brings together the requisite experience and skills, with a clear understanding of all the steps and timelines involved in successful product launches. Q·Media shortens time to market, reduces inventory costs, and provides creative solutions when seemingly impossible marketing deadlines could be compromised by product availability. For our market-driven customers, this key operational expertise has become essential to their success.

Print Services. Almost all technology products require packaging and documentation. Our print division, which enters its 100th year of continuous operation in 2001, is uniquely configured to provide quick manufacturing turnaround, which reduces inventory costs and time to market for our customers. Whether it is technical documentation or marketing material, our demand print, full-colour sheet-fed presses and web presses, combined with our full-service bindery operation provide a level of integration and manufacturing control unmatched in the industry.

Media Replication. For 16 years, Q·Media has provided media replication to its technology customers and has moved with the market from computer tape and diskettes to CD-ROM and now DVD-ROM. Our *Distributed Manufacturing Model*, which decentralizes this key production resource in close proximity to our major customers, is crucial to meeting tight order turnarounds now measured in hours. These state-of-the-art facilities, equipped for the latest technologies, provide our customers with one of the highest consolidated capacities in the industry. As DVD-ROM begins to emerge as the next standard, our facilities and equipment are configured to respond to customer requirements.

Package Assembly. For products destined for retail distribution, OEM (original equipment manufacturer) customers, or direct to consumer fulfillment, our efficient package assembly service supplies a wide range of custom packaging configurations on short notice. As an integrated company – offering printing, media manufacturing, planning and project management – Q·Media is uniquely positioned to offer its customers highly efficient package assembly services. It is this high degree of integration that saves our customers time and money and enables them to be more responsive to their customers.

Web Fulfillment and E-Commerce Services. Our fulfillment services are designed to accelerate the delivery of our customers' products direct to the consumer. For our customers, we manage simple, single- product shipments as well as multiple "pick-and-pack" storefront requirements. In addition to being fully integrated with our Web-based offerings, we provide real-time reporting to our customers on their product movement. For others, we provide custom, Internet-based ordering and tracking services that accelerate the delivery of critical market information and enhance customer service and support. For customers requiring rapid implementation of a storefront, on-line ordering, product fulfillment tracking or e-commerce transaction support, we provide pre-configured solutions that quickly and efficiently put our customers' product on-line while seamlessly integrating with their web site.

Our Future

As an outsource service provider to one of the most dynamic industries in the world, Q·Media will continue to evolve its processes in order to improve turnaround times. As we move forward, our business processes are continually being re-engineered to leverage technologies such as the Internet. Our success is underpinned by our well-established relationships with customers such as Toshiba, Dell, Microsoft, and Gateway. We will continue to build on these relationships while adding new companies to our growing customer base.

esourceful

As an integrated supply chain manager we are asked by our customers to source not only the best component for their product but also the most effective and economic delivery of that component. Sadie McLean, Account Services at Fife, co-ordinates a donation program that provides clothing for women re-entering the workforce bringing unique resources for unique challenges.

SADIE McLEAN : ACCOUNT SERVICES
Fife, WA

focussed

An orderly sense or priorities combined with a clear view of the next critical steps, sets up the key success points in our operations. Mike Munsell, Assembly Operations at Redmond, focuses his effort on ensuring assembly occurs as planned and invests his personal time in enhancing his skills as an accomplished pool player.

MIKE MUNSELL : ASSEMBLY OPERATIONS
Redmond, WA


3

accountable

Q·MEDIA SERVICES CORPORATION FINANCIALS

2000

(in thousands of Canadian dollars)

Overview

This discussion and analysis should be read in conjunction with the audited consolidated financial statements and accompanying notes of Q·Media Services Corporation ("Q·Media" or the "Company") for the respective years. All numbers are in thousands of Canadian dollars unless otherwise noted. Fiscal 2000 and fiscal 1999 are referred to as "2000" and "1999", respectively, throughout this report.

Summary of Fiscal 2000

During the year the Company made a significant acquisition when it purchased the Quebecor World CD-ROM manufacturing facilities located in Fife, Washington, and Westborough, Massachusetts. In anticipation of this acquisition the Company made some additions to its operations and sales organizations. The acquisition is reflected on the Company's balance sheets as at July 31, 2000.

In fiscal 2000, the Company also opened a new facility in Nashville, Tennessee, to support Dell Computer Corporation's manufacturing operation there. The Newark, California, operation was closed in the fourth quarter.

Acquisition of Quebecor Integrated Media

The Company concluded the acquisition of Quebecor Integrated Media ("QIM") on July 31, 2000. The price of the acquisition was $94,472 plus $8,368 for working capital and was financed by proceeds of a new debt facility, a payable in respect of working capital adjustments and the issuance of special warrants and a promissory note to Quebecor World. The promissory note converted into redeemable preferred shares following shareholder approval, which occurred on October 2, 2000. The total acquisition cost was allocated to the fair value of the net assets acquired in QIM and the remaining $83,776 was recorded as goodwill. As part of the acquisition, Quebecor World has provided certain financial performance guarantees to December 31, 2000, and has agreed to procure $45,000 (US$30,000) in printing, fulfillment and CD-ROM replication services from Q·Media over the calendar years 2001 through 2004. The acquisition adds a key East Coast location to the Company's North American operations.

Results of Operation: 2000 compared to 1999

The 2000 results include the results of Q·Media Services Corporation, the Canadian software manufacturing division based in Richmond, British Columbia, and U.S.-based PAC Services (California), Inc. ("PAC California"), Digimedia, Inc. ("Digimedia"), PAC Services, Inc. ("PAC Washington") and Q·Media Services, Inc.'s manufacturing division in Irvine, California ("QMSI"). No results have been included for QIM's Fife or Westborough operations.

There was a 9% reduction in revenue in 2000 as sales to one major customer were effected by a reduction in content of the customer's kits, and one other significant customer experienced a downturn in their business resulting in lower sales to that customer. The result of these changes was a decline in revenue to $92,253 from $101,843 in 1999.

Gross profit margins were maintained at 26%.

As a percentage of revenue, selling and general and administrative expenses remained the same as the previous year at 16% of revenue, but in total dollars these expenses were reduced by approximately 8% from the previous year in line with the lower revenues.

Interest expense in 2000 was $1,498 compared to interest expense of $1,339 in 1999. The increase in interest expense was due to increased use of the Company's operating line of credit during 2000.

Amortization was $3,353 in 2000 compared to $2,949 for 1999. This increase is the result of on-going amortization of capital assets and goodwill as part of normal operations. Amortization in 2000 included goodwill amortization of $763.

Net earnings for 2000 were $3,593 compared to $4,501 for 1999. Basic earnings per share were 33 cents and fully diluted earnings per share were 27 cents in 2000, compared to basic earnings per share of 43 cents and fully diluted earnings per share of 30 cents in 1999. Basic earnings per share before the amortization of goodwill were 39 cents and fully diluted earnings per share before amortization of goodwill were 31 cents in 2000 compared to 49 cents and 34 cents, respectively, in 1999.

Cash flow from operations before changes in non-cash working capital items for 2000 was $7,182 compared to $7,668 for 1999. The reduction in funds flow from operations is attributable to the lower sales revenues in 2000 compared to 1999. The Company increased its cash and cash equivalents by $4,201 during 2000, compared to a decrease in cash and cash equivalents of $3,356 in 1999. The change in cash flow in 2000 compared to 1999 is attributed to a $9,385 improvement in non-cash working capital offset

partially by an increase in capital expenditures of $1,391 over 1999 levels. The improvement in non-cash working capital resulted from the acquisition of QIM and the related increase in accrued liabilities.

Total tangible assets increased from $31,932 in 1999 to $64,775 in 2000, as a result of the acquisition. Shareholders' equity increased during the year from $21,719 to $53,417.

Working capital at July 31, 2000, was $954 compared to $8,165 in 1999. Accounts receivable increased to $22,231 from $12,732 due to the acquisition of QIM receivables. Inventory levels increased to $13,378 at July 31, 2000, compared to $6,397 at July 31, 1999, as a result of the addition of QIM inventory ($7,977) offset by lower inventories at Irvine and Newark. Prepaid expenses and deposits increased by $490 during the year, due to additional prepaid expenses at QIM. Accounts payable were $36,579 compared to $11,878 in 1999, reflecting the additional accounts payable at QIM ($14,527), and accrued liabilities relating to the acquisition ($9,058). At July 31, 2000, the Company had an operating line of credit facility of $11,898 (US$8,000), of which $1,440 (US$968) had been used. Subsequent to year-end, this line of credit was replaced with a new US$17,000 line of credit. In addition, the Company had a net cash balance of $4,494. The current portion of long-term debt increased to $5,647 on July 31, 2000, from $1,966 on July 31, 1999, due to the current portion of acquisition debt ($3,198) and additional notes payable at QIM. The working capital ratio at July 31, 2000, was 1.02 to 1, compared to 1.59 to 1 on July 31, 1999. The debt to equity ratio was 1.37 to 1 on July 31, 2000, compared to 0.71 to 1 on July 31, 1999.

Due to an effective tax structure and the current year utilization of tax losses carried forward from previous years, the Company has an effective tax rate in the year of approximately 17%.

Liquidity and Capital Resources

During the next year, debt and capital lease payments are expected to total $5,754 compared to $2,072 in 1999. Funding for these payments is expected to be provided from operating cash flow.

Capital asset purchases were $4,178 in 2000, compared to $2,787 in 1999. The Company continued to invest in manufacturing machinery and equipment, CD replication equipment and computer hardware and software.

Long-term cash requirements for expansion of the Company will be satisfied through a combination of operating cash flow and the operating line of credit. Subject to satisfactory market conditions, the Company intends to raise equity to redeem the preferred shares and retire long-term debt.

Risks and Uncertainties

The supply chain management business to the high-technology and computer software industry continues to experience a change in technologies as its customers move from the traditional magnetic media to different forms of optical media. In addition, the industry is subject to changing industry standards and customer preferences. While the Company is confident that its product and service offerings will remain competitive, there is no assurance that new service requirements, technologies or customer preferences will not adversely affect the market for its service.

The Company endeavors to mitigate the negative impact of technology change by continuing to invest in a broader range of offerings to its customers. This has been evident in 2000 with the addition of five new CD-ROM replication facilities and the design of those facilities to accommodate future technological advancements in optical media replication.

Outlook

Although there is no certainty in the outlook of the results for fiscal 2001, management expects the outlook to include continued growth in revenue and improved operating results in fiscal 2001. During fiscal 2001, the Company will focus on integrating QIM with the other divisions and on exploiting the synergies between the operations and the increasing profile of the Company with its customers. In addition, supply chain management services and electronic fulfillment services are expected to grow in response to the demands of the Company's customers. It is the intention of the Company to continue to broaden its customer base and develop new opportunities to increase its business in the North American market place.

management's report to the shareholders

The accompanying consolidated financial statements and all information in the Annual Report are the responsibility of management. The consolidated financial statements have been prepared by management in accordance with the accounting policies in the notes to the financial statements. When necessary, management has made informed judgements and estimates in accounting for transactions which were not complete at the balance sheet date. In the opinion of management, the financial statements have been prepared within acceptable limits of materiality, and are in accordance with Canadian generally accepted accounting principles appropriate in the circumstances. The financial information elsewhere in the Annual Report has been reviewed to ensure consistency with that in the consolidated financial statements.

Management maintains appropriate systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records properly maintained to provide reliable information for the preparation of financial statements.

KPMG, an independent firm of Chartered Accountants, was engaged, as approved by a vote of shareholders at the Corporation's most recent annual general meeting, to audit the consolidated financial statements in accordance with generally accepted auditing standards in Canada and provide an independent professional opinion.

The audit committee of the Board of Directors, which is comprised of three directors who are not employees in the Corporation, has discussed the consolidated financial statements, including the notes thereto, with management and the external auditors. The consolidated financial statements have been approved by the Board of Directors on the recommendation of the audit committee.

P. Scott Lawrie
Executive Vice President
October 4, 2000

Paul Fernandez
Vice President, Finance
October 4, 2000

auditors' report to the shareholders

We have audited the consolidated balance sheets of Q·Media Services Corporation as at July 31, 2000 and 1999 and the consolidated statements of income and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles. As required by the Company Act (British Columbia), we report that, in our opinion, these principles have been applied on a consistent basis.

KPMG LLP

Chartered Accountants
Vancouver, Canada

September 8, 2000

(Expressed in thousands of Canadian dollars)		As at July 31, 2000		1999
Assets				
Current assets:				
Cash and cash equivalents	$	4,494	$	293
Accounts receivable		22,231		12,732
Inventories (note 4)		13,378		6,397
Prepaid expenses and deposits		3,077		2,587
		43,180		22,009
Capital assets (note 5)		21,595		9,923
Other assets (note 6)		103,021		17,454
	$	167,796	$	49,386
Liabilities and Shareholders' Equity				
Current liabilities:				
Accounts payable and accrued liabilities	$	36,579	$	11,878
Current portion of long-term debt (note 7)		5,647		1,966
		42,226		13,844
Long-term debt (note 7)		62,806		4,712
Convertible debentures (note 8)		9,347		9,111
Shareholders' equity:				
Share capital (note 9)		23,909		23,400
Special warrants (note 9(f))		4,616		–
Convertible promissory note (note 9(c))		23,538		–
Convertible debentures (note 8)		1,226		1,226
Cumulative translation adjustment		1,111		1,669
Deficit		(983)		(4,576)
		53,417		21,719
Commitments (note 12)				
Subsequent event (note 10(e))				
	$	167,796	$	49,386

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Robert M. Lawrie
Director

F. David D. Scott
Director

consolidated statements of income and deficit

(Expressed in thousands of Canadian dollars, except per share amounts)		Years ended July 31, 2000		1999
Revenue	$	92,253	$	101,843
Cost of goods sold		68,183		75,207
		24,070		26,636
Expenses:				
Selling		5,425		5,921
General and administrative		9,467		10,268
Amortization		2,590		2,090
Interest		1,498		1,339
		18,980		19,618
Income before amortization of goodwill and income taxes		5,090		7,018
Income taxes (note 11)		864		1,889
Income before amortization of goodwill		4,226		5,129
Amortization of goodwill, net of tax		633		628
Net income		3,593		4,501
Deficit, beginning of year		(4,576)		(9,077)
Deficit, end of year	$	(983)	$	(4,576)
Earnings per share before goodwill amortization (note 13):				
Basic	$	0.39	$	0.49
Fully diluted		0.31		0.34
Earnings per share (note 13):				
Basic	$	0.33	$	0.43
Fully diluted		0.27		0.30

See accompanying notes to consolidated financial statements.

consolidated statements of cash flows

(Expressed in thousands of Canadian dollars)	Years ended July 31, 2000	1999
Cash provided by (used in):		
Operating activities:		
Net income	$ 3,593	$ 4,501
Items not involving cash:		
Amortization	3,353	2,949
Accretion of convertible debentures	236	218
Net change in non-cash working capital	3,111	(6,274)
	10,293	1,394
Financing activities:		
Increase in long-term debt	62,462	3,167
Issue of common shares	248	–
Repayment of long-term debt	(1,071)	(2,069)
Increase in deferred financing costs	(2,520)	–
Redemption of special warrants	–	(2,869)
Share issue costs	–	(24)
	59,119	(1,795)
Investing activities:		
Acquisition, net of cash acquired of $4,593 (note 3)	(60,800)	–
Purchase of capital assets	(4,178)	(2,787)
Goodwill acquired	(491)	–
	(65,469)	(2,787)
Effect of foreign currency exchange rates on cash and cash equivalents	258	(168)
Increase (decrease) in cash and cash equivalents	4,201	(3,356)
Cash and cash equivalents, beginning of year	293	3,649
Cash and cash equivalents, end of year	$ 4,494	$ 293
Supplementary disclosure:		
Cash paid for:		
Interest	$ 1,268	$ 1,006
Income taxes	2,494	602
Non-cash financing and investing activities:		
Special warrants issued pursuant to acquisition	4,616	–
Convertible promissory note issued pursuant to acquisition	23,773	–
Payable related to working capital adjustment	8,368	–
Purchase of capital assets funded by payables	1,829	–
Purchase of capital assets funded by obligations under capital lease	–	152
Non-cash expenses on acquisition	690	–

See accompanying notes to consolidated financial statements.

The Company was incorporated under the Company Act (British Columbia) and is in the supply chain management business and provides media replication, assembly, inventory management and order fulfillment services to the high technology products and computer software industry.

1. Significant accounting policies:

(a) Principles of consolidation:

The consolidated financial statements include the accounts of the Company and all entities which are controlled by the Company, referred to as subsidiaries. The accounts of its subsidiaries are included from the dates of acquisition. The effective interest of Q·Media Services Corporation in the voting equity share capital of all of its subsidiaries is 100%. All significant intercompany balances and transactions are eliminated.

(b) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, including accounts receivable, inventories, capital assets, goodwill and the allocation of the purchase price of acquisitions, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates used in the preparation of the financial statements.

(c) Cash equivalents:

Cash equivalents include short-term deposits, which are all liquid securities with a term to maturity of three months or less when acquired. Short-term deposits are valued at cost.

(d) Inventories:

Raw materials, work-in-process and finished goods are recorded at the lower of average cost and net realizable value.

(e) Capital assets:

Capital assets are initially recorded at cost. Amortization is subsequently provided using the straight-line method over the following useful lives:

Production equipment	5 to 7 years
Furniture and fixtures	5 years
Office equipment	3 to 5 years

CD-ROM replication equipment is amortized on a per unit basis over the estimated life of the equipment not exceeding 12 years.

Leasehold improvements are amortized on a straight-line basis over the shorter of the lease term or their useful lives.

(f) Goodwill:

Goodwill represents the excess of acquisition consideration over the fair values of the net identifiable assets acquired and is amortized on a straight-line basis over the estimated lives, not exceeding 20 years. The Company evaluates the carrying value of goodwill for potential permanent impairment on an ongoing basis. In order to determine if such a permanent impairment exists, the Company's management considers each business unit's financial condition and projected future earnings before tax. A permanent impairment in the value of goodwill is written off to earnings in the year such impairment is determined.

(g) Revenue recognition:

Revenue from sales of products and services is recognized upon the shipment of the product or rendering of the service to the customer.

(Expressed in thousands of Canadian dollars, except number of shares and per share amounts) Years ended July 31, 2000 and 1999

1. Significant accounting policies (continued):

(h) Translation of foreign currencies:

Transactions in foreign currencies are translated into Canadian dollars at the exchange rates in effect on the transaction date. Monetary items expressed in foreign currencies are translated into Canadian dollars at the exchange rates in effect at the balance sheet date. The resulting exchange gains and losses are recognized in income.

Self-sustaining operations, which comprise all of the Company's subsidiaries, are those whose economic activities are largely independent of those of the parent company. The Company uses the current rate method to translate the accounts of its self-sustaining operations into Canadian dollars. Under this method, assets and liabilities are translated at the exchange rates in effect at the balance sheet date, and revenues and expenses are translated at average rates for the period. The unrealized translation gains and losses on the Company's net investment, including long-term intercompany advances, are accumulated in a separate component of shareholders' equity, described in the consolidated balance sheet as cumulative translation adjustment.

(i) Share issue costs:

The costs of issuing common shares, net of income tax recoveries thereon, are applied to reduce the stated value of such shares.

(j) Deferred financing costs:

Deferred financing costs related to long-term debt are deferred and amortized over the term of the debt.

(k) Comparative figures:

Certain of the comparative figures have been reclassified to conform with the basis of presentation adopted in the current year.

2. Adoption of new accounting standards:

(a) Statement of cash flows:

In 1999, the Company adopted Canadian Institute of Chartered Accountants ("CICA") Section 1540, Cash Flow Statements, which generally results in the exclusion of non-cash transactions from the statement and requires them to be reported separately. Adoption of the new section has not otherwise impacted the measurement or recognition of transactions.

(b) Segmented information:

In 1999, the Company adopted CICA Section 1701, Segment Disclosures, which modifies the definition of a reportable segment. Under this new section, segments correspond to the Company's internal organization structure rather than the industry and geographic areas of operations.

3. Acquisition:

On July 31, 2000, the Company acquired Quebecor Printing Seattle Inc. and Print Northwest L.P. The acquisition was accounted for using the purchase method of accounting and the results of operations have been consolidated since the date of the acquisition. The Company's interest in the net assets acquired, at fair values, is as follows:

Current assets	$	24,070
Capital assets		11,125
Goodwill		83,776
Current liabilities		(15,747)
Long-term debt		(384)
Acquisition cost	$	102,840
Consideration:		
Cash (note 7)	$	62,462
Payable related to working capital adjustment		8,368
Expenses ($2,931 paid in cash)		3,621
Convertible promissory note (note 9(c))		23,773
Special warrants (note 9(f)(ii))		4,616
	$	102,840

Years ended July 31, 2000 and 1999 (Expressed in thousands of Canadian dollars, except number of shares and per share amounts)

4. Inventories:

	2000	1999
Raw materials	$ 7,180	$ 5,655
Work-in-process	1,071	31
Finished goods	5,127	711
	$ 13,378	$ 6,397

5. Capital assets:

			2000	1999
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
CD-ROM replication equipment	$ 4,994	$ 325	$ 4,669	$ 4,185
Production equipment	22,513	10,693	11,820	2,664
Office furniture and equipment, fixtures and leasehold improvements	9,549	4,443	5,106	3,074
	$ 37,056	$ 15,461	$ 21,595	$ 9,923

At July 31, 2000, assets under capital leases with a cost of $945 (1999 - $2,989) and accumulated amortization of $610 (1999 - $1,379) are included in capital assets.

6. Other assets:

	2000	1999
Goodwill	$ 111,774	$ 27,964
Less accumulated amortization	11,273	10,510
	100,501	17,454
Deferred financing costs	2,520	–
	$ 103,021	$ 17,454

(Expressed in thousands of Canadian dollars, except number of shares and per share amounts) Years ended July 31, 2000 and 1999

7. Long-term debt:

	2000	1999
US$42,000 term loan, interest at LIBOR plus 1.75%, secured by all assets and shares of the Company, repayable in U.S. dollars as follows:	$ 62,462	$

February 2001	$ 2,150
August 2001	2,150
February 2002	4,300
August 2002	4,300
November 2002	3,225
February 2003	3,225
May 2003	3,225
August 2003	3,225
November 2003	4,300
February 2004	4,300
May 2004	4,300
August 2004	3,300
	$ 42,000

	2000	1999
US$2,000 term loan, interest at U.S. prime rate payable monthly, due November 30, 2001, secured by receivables and inventory of all U.S.-based operations	2,975	3,024
Note payable to Bank of America, in monthly installments of US$52, including interest at the floating LIBOR rate due September 2000, secured by certain equipment	79	-
Note payable to GE Capital, in monthly installments of US$29, including interest at 6.75%, due November 2001, secured by certain equipment	704	-
Note payable to CIT, in monthly installments of US$40, including interest at 6.8%, due September 2001, secured by certain equipment	821	-
US$2,000 promissory note payable in 36 equal monthly installments of US$56 plus interest at U.S. prime rate, adjusted quarterly, due June 30, 2001, secured by all assets of all U.S.-based operations	991	2,016
US$192, non-interest bearing, unsecured and repayable at US$8 per month, due August 1, 2000	-	145
Capital lease obligations, bearing interest at 13%	421	1,493
	68,453	6,678
Less current portion	5,647	1,966
	$ 62,806	$ 4,712

Years ended July 31, 2000 and 1999 (Expressed in thousands of Canadian dollars, except number of shares and per share amounts)

7. **Long-term debt** (continued):

As of July 31, 2000, future minimum payments are as follows:

	Long-term debt	Minimum payments under capital leases	Total
2001	$ 5,477	$ 277	$ 5,754
2002	12,956	123	13,079
2003	20,784	34	20,818
2004	23,981	27	24,008
2005 and thereafter	4,908	30	4,938
	68,106	491	68,597
Less amount representing interest at 7% and 13%	74	70	144
	68,032	421	68,453
Less current portion	5,409	238	5,647
	$ 62,623	$ 183	$ 62,806

8. **Convertible debentures:**

During 1998, the Company issued convertible debentures with a face value of $10,000. These debentures bear interest at 5%, payable quarterly, and mature December 23, 2002. The debentures are redeemable at the option of the Company, after two years, if the single day trading price of the Company's shares exceeds $4.00 per share and the average daily trading volume is in excess of 15,000 shares for a period of 30 days. The debentures are convertible at the election of the holder, at any time, into voting or non-voting common shares at the rate of 425.53 common shares for each thousand dollar face value of the debentures.

Gross proceeds of $10,000 were received. The estimated equity value of the conversion feature of the debentures of $1,226 has been included as a separate component of shareholders' equity. The equity component was calculated as the difference between the gross proceeds received by the Company and the net present value of repayments based on an annual rate of 8%, which is consistent with similar borrowings available to the Company, without conversion features. The remaining portion of $8,774 was classified as a long-term liability. The debt component is being accreted to its face value at maturity over the term of the debt through a charge to interest expense.

During 2000, the financial covenants related to the convertible debentures were revised to be consistent with the financial covenants imposed by the US$42,000 term loan.

9. **Share capital:**

(a) Authorized:

200,000,000 Voting common shares, without par value.

100,000,000 Non-voting common shares, without par value, convertible into voting shares on a 1:1 basis at the option of the holder.

(Expressed in thousands of Canadian dollars, except number of shares and per share amounts) Years ended July 31, 2000 and 1999

9. Share capital (continued):

(b) Issued and outstanding:

	2000		1999	
	Shares	Amount	Shares	Amount
Voting common shares:				
Outstanding, beginning of year	8,193,171	$ 18,754	7,919,705	$ 18,089
Exercise of warrants	–	–	273,466	689
Issued for cash from employee share plan	120,000	248	–	–
Tax benefit of share issue costs	–	261	–	–
Less share issue costs	–	–	–	(24)
Outstanding, end of year	8,313,171	19,263	8,193,171	18,754
Non-voting common shares:				
Outstanding, beginning and end of year	2,528,778	4,646	2,528,778	4,646
Total share capital	10,841,949	$ 23,909	10,721,949	$ 23,400

(c) Convertible promissory note:

In connection with the acquisition of Quebecor Printing Seattle Inc. and Print Northwest L.P. (note 3), the Company issued a US$16,000 ($23,773) convertible promissory note as part of the consideration paid. The note bears interest at a rate of 6% per annum to November 2, 2000, and at prime rate plus 2.75% thereafter, payable on repayment or conversion of the note. The Company is to seek shareholder approval on October 2, 2000 to create and issue redeemable preferred shares ("Preferred Shares"), at which time the promissory note will be converted into Preferred Shares. If approval of the Preferred Shares is not obtained, the note will be due and payable on December 31, 2001.

Subject to the approval of shareholders, the Preferred Shares are expected to be non-voting, redeemable at the option of the Company until December 31, 2001 and will accrue a cumulative, preferred dividend at a rate of 6% per annum. In the event that the Company completes an equity financing, the proceeds are to be used to redeem the Preferred Shares. If the Preferred Shares are not redeemed by December 31, 2001, the Preferred Shares will convert to common shares of the Company at a rate of $2.35 per common share.

The estimated liability amount of US$158 ($235) is included in accrued liabilities. The liability component was determined by calculating the net present value of the required interest payments. The equity component was calculated as the difference between the face value of the note and the liability component. The equity component of the note will be accreted to its face value over the period to the expected date of conversion to preferred shares through a charge to the deficit.

(d) Stock option plan:

The Company has reserved 1,580,000 common shares for future issuance under its stock option plan. The plan provides for the granting of options with an exercise price equal to the fair market value of the Company's stock at the grant date. The options generally vest over 3 years and the term of each option, determined by the Company at the time it is granted, is generally 5 years.

Years ended July 31, 2000 and 1999 (Expressed in thousands of Canadian dollars, except number of shares and per share amounts)

(d) **Stock option plan (continued):**
Stock option activity for 2000 and 1999 is presented below:

	Number of Shares	Weighted Average Exercise Price
Outstanding, July 31, 1998	800,100	$ 2.79
Granted	534,800	2.21
Forfeited	(101,500)	3.72
Outstanding, July 31, 1999	1,233,400	2.46
Granted	161,000	2.54
Exercised	(120,000)	2.07
Forfeited	(120,300)	2.77
Outstanding, July 31, 2000	1,154,100	$ 2.48

The following table summarizes the stock options outstanding at July 31, 2000:

	Options Outstanding			Options Exercisable	
Range of exercise prices	Number of shares	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
$1.90 to $3.55	1,154,100	4.63 years	$ 2.48	660,845	$ 2.49

The options outstanding at July 31, 2000 expire between January 4, 2001 and November 18, 2008.

(e) **Warrants:**
As part of the private placement and convertible debenture financing in 1998, the Company issued 750,000 warrants. Each warrant entitled the holder to purchase one common share at a price of $2.90 per share. None of the warrants were exercised in fiscal 2000 and all of them expired on December 22, 1999.

(f) **Special warrants:**
(i) The Company issued 1,423,200 special warrants in connection with the acquisition of PAC Services, Inc. in 1998. On March 5, 1999, 1,149,734 of these warrants were redeemed by the Company for an amount of US$2,000 and 273,466 were converted to common shares at no additional cost.
(ii) In connection with the acquisition of Quebecor Printing Seattle Inc. and Print Northwest L.P. (note 3), the Company issued special warrants exchangeable, at no additional cost, into common shares of the Company (the "Shares"). The number of Shares to be issued upon exercise of the special warrants is equal to US$5,000 divided by one of the following;

(a) the offering price of the Shares in the event of completion of a public offering of the Shares prior to December 15, 2000,
(b) $2.60 in the event that the Company does not complete a public offering of the Shares by December 15, 2000, but has filed and obtained receipts for a final prospectus qualifying the Shares to be acquired upon exercise of the special warrants, or
(c) the lower of $2.50 and the trailing ten day average closing price of the Shares to December 15, 2000 in the event that the Company does not complete a public offering of the Shares by December 15, 2000 or has not filed and obtained receipts for a final prospectus.

(Expressed in thousands of Canadian dollars, except number of shares and per share amounts) Years ended July 31, 2000 and 1999

(f) Special warrants (continued):

The maximum number of shares to be issued upon exercise of the special warrants is 25% of the outstanding voting common shares of the Company at the date of exercise. If the maximum number of shares issued upon exercise multiplied by the conversion rate is less than US$5,000, the difference will be paid to the special warrant holder in cash or by way of preferred shares of the Company, at the option of the Company.

At the date of the acquisition, the special warrants were valued based on the number of shares that would be issued at a conversion rate of $2.60 per share, multiplied by the five day average closing price of the Company's common shares before and after July 31, 2000.

10. Financial instruments:

(a) Fair values:

The carrying amounts of cash and cash equivalents, accounts receivable, deposits, and accounts payable and accrued liabilities approximate fair value due to their short maturities. Based on the borrowing rates currently available to the Company for loans with similar terms, the carrying values of its long-term debt, capital lease obligations and convertible debentures approximate fair value.

(b) Concentrations of credit risk:

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash equivalents and trade receivables. The Company places its cash equivalents in high quality financial institutions in the countries in which it operates. To mitigate credit risk, the Company performs ongoing credit evaluations of its customers. The Company provides reserves for potential credit losses and such losses and yearly provisions have not been significant and have been within management's expectations.

(c) Foreign exchange:

The Company operates in the United States, which gives rise to a risk that its earnings and cash flows may be negatively impacted by fluctuations in foreign exchange rates.

(d) Interest rate risk:

The Company is subject to interest rate risk on its floating rate US$2,000 promissory note payable, its US$2,000 and US$42,000 term loans and its US$53 note payable to Bank of America.

(e) Line of credit:

The Company has a US$8,000 unused line of credit bearing interest at U.S. Bank prime rate, secured by a first charge on receivables and inventory of all U.S.-based operations. This line of credit was replaced on August 2, 2000 with a US$17,000 line of credit, bearing interest at U.S. base rate or LIBOR rate, secured by all assets and shares of the Company.

11. Income taxes:

Income tax expense varies from the amount that would be computed by applying the Canadian federal and provincial statutory tax rate of 44.6% (1999 – 38.6%) to income before amortization of goodwill and income taxes as shown in the following table:

	2000	1999
Combined Canadian federal and provincial income taxes at expected rate	$ 2,270	$ 2,709
Reduction of income taxes from use of unrecorded tax benefits	(33)	(950)
Foreign income taxed at lower rates	(85)	–
Permanent and other differences	(1,288)	130
	$ 864	$ 1,889

Years ended July 31, 2000 and 1999 (Expressed in thousands of Canadian dollars, except number of shares and per share amounts)

11. Income taxes (continued):

At July 31, 2000, the Company has non-capital losses carried forward for tax purposes totaling approximately $640 which are available to reduce taxable income of future years. These non-capital loss carry forwards expire as follows:

2003	$	40
2006		600

The Company also has $1,100 of financing costs which are deductible on a straight-line basis over the next 2 years. The Company has not recognized the benefits of the tax loss carry forward and financing cost balances.

12. Commitments:

The Company has entered into various operating lease agreements, with remaining terms of up to nine years, for office premises and equipment. The minimum lease payments in each of the next five years and thereafter are approximately as follows:

2001	$	9,607
2002		8,741
2003		8,210
2004		4,859
2005 and thereafter		8,958

13. Earnings per share:

Basic earnings per share is calculated based upon the weighted average number of voting and non-voting common shares outstanding during the year, which was 10,780,091 (1999 - 10,559,368).

Fully diluted earnings per share reflects the dilutive effect of the conversion of the stock options, special warrants, convertible debentures and convertible promissory note outstanding at the end of the year or those items exercised or converted during the year, as if they had been exercised or converted at the beginning of the year or the date issued, if later. The number of shares used for the calculation of the fully diluted earnings per share was 16,192,456 (1999 – 17,486,119). Interest on the funds which would have been received had the options been exercised, in the amount of $201 (1999 - $280) net of income tax, has been imputed at a rate of 7.1% (1999 - 5.4%) per annum. Fully diluted earnings excludes $560 (1999 - $500) of interest net of taxes upon the assumed conversion of convertible debentures to common shares at the beginning of the period.

14. Segmented information:

The Company operates in the high technology products and computer software industry and all sales of its products and services are made in this segment. Management of the Company makes decisions about allocating resources based on the one operating segment.

The Company conducts its operations in Canada and the United States. Information by geographic area is as follows:

	Year ended July 31, 2000				Year ended July 31, 1999			
		Revenues		Capital assets and other assets		Revenue		Capital assets and other assets
United States	$	87,482	$	123,742	$	97,773	$	26,917
Canada	$	4,771	$	874	$	4,070	$	460
Total	$	92,253	$	124,616	$	101,843	$	27,377

Revenues are attributed to countries based on location of the distribution branch.

Significant customers

The approximate sales to significant customers are as follows:

		2000		1999
Customer A	$	30,330	$	37,008
Customer B		12,364		–

board of directors

P. Scott Lawrie
Executive Vice President

Robert M. Lawrie
President and Chief Executive Officer

J. Mark A. MacDonald
Portfolio Manager, Ontario Teachers' Pension Plan Board

F. David D. Scott
Chairman of the Board

Bruce W. Simpson
Retired Executive

Morgan P. W. Sturdy
Retired Executive

officers

Robert M. Lawrie
President and Chief Executive Officer

P. Scott Lawrie
Executive Vice President

Ian May
Vice President and Chief Operating Officer

John E. Longley
Vice President and Chief Financial Officer

Paul Fernandez
Vice President, Finance

David J. Raffa
Secretary to the Board

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Q·MEDIA SERVICES CORPORATION

RICHMOND, BRITISH COLUMBIA

REDMOND, WASHINGTON

FIFE, WASHINGTON

IRVINE, CALIFORNIA

AUSTIN, TEXAS

NASHVILLE, TENNESSEE

WESTBOROUGH, MASSACHUSETTS

Annual General Meeting

We would be pleased to have your attendance at the Company's Annual General Meeting of Shareholders, scheduled at 2:00pm on Monday, December 4, in the Vancouver Room of the Metropolitan Hotel, 645 Howe Street, Vancouver, British Columbia.

Q•MEDIA SERVICES CORP.

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